

MEMORANDUM

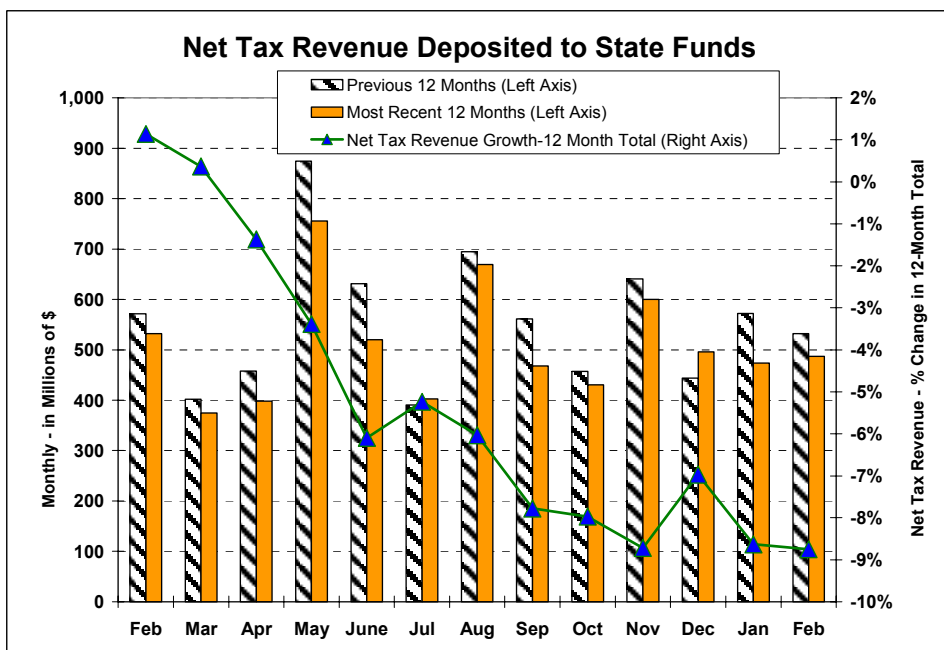
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: March 27, 2010

Twelve-month Total Net Tax Receipts Through February 28, 2010

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending February 2010 with comparisons to the previous 12 months. February 2009 to February 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Month of February Comparison

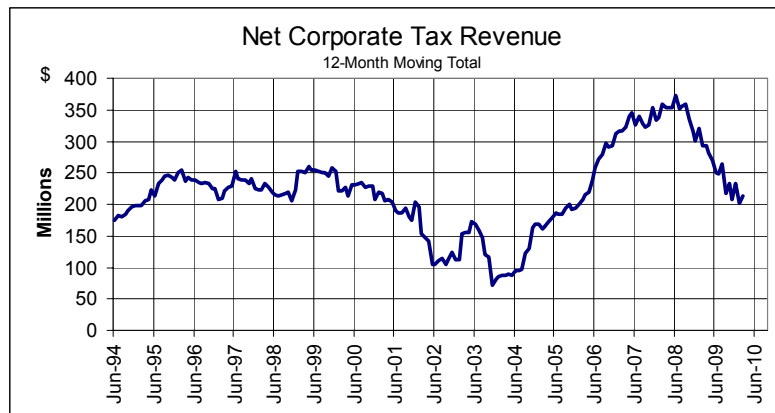
February net tax receipts totaled \$487.4 million, a decrease of \$44.3 million (- 8.3%) compared to February 2009. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$37.1 million, - 22.3%) – Gross income tax receipts decreased \$21.2 million in February while income tax refunds increased \$15.9 million. A calendar issue delayed about \$15.0 million of income tax withholding from the end of February 2010. That money was deposited March 1 and will boost March receipts.
- Sales/Use Tax (negative \$19.5 million, - 7.0%)
 - Road Use Tax Fund use tax and fees for new registrations decreased \$0.3 million in February.
 - Gross General Fund sales/use tax receipts decreased \$29.6 million and refunds issued for the month decreased \$10.5 million (net decrease of \$19.1 million). A calendar issue delayed about \$17.0 million of sales tax revenue from the end of February 2010. That money was deposited March 1 and will boost March receipts.
- Corporate Income Tax (positive \$11.5 million, 500.0%) – Gross corporate tax receipts increased \$6.5 million and refunds decreased \$5.0 million. The February net increase comes after a large decrease in January.
- Fuel Tax (positive \$1.5 million, 4.2%) – Gross fuel tax revenue decreased \$1.8 million while refunds processed in the month decreased \$3.3 million.
- Cigarette & Tobacco Taxes (positive \$0.7 million, 4.3%)
- Gambling Tax (negative \$1.5 million, - 6.0%) – Total adjusted gross revenue for Iowa's 17 State-regulated gambling facilities decreased 4.3% in February 2010, compared to February 2009, and gambling tax revenue growth has now been negative for twelve consecutive months.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending February 2010, net revenue from all taxes deposited to State funds totaled \$6.076 billion, a decrease of \$582.6 million (- 8.7%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$268.3 million, - 9.3%) – The rate of individual income tax receipt growth has decreased significantly since peaking in May 2008 at 11.8% year-over-year. The processing of tax year 2008 tax returns during the spring of 2009 accelerated the decrease as did the fourth calendar quarter estimate payment deposited in December and January. Net income tax receipts for the month of February 2010 were low, contributing to concerns for the upcoming tax return season.
- Sales/Use Tax (negative \$165.4 million, - 7.4%) – Net sales/use tax receipts have decreased for 12 of the past 15 months compared to the same month the previous year and the annual percent growth has fallen from positive 6.0% at the end of October 2008 to negative 7.4% at the end of February 2010.
- Corporate Tax (negative \$80.3 million, - 27.3%) – Net corporate income tax totaled \$213.6 million for the 12 months ending February 2010. The 12-month total peaked in June 2008 at \$371.9 million, so net corporate tax revenue is 42.6% below the latest peak. During and after the 2001 recession, net corporate tax receipts fell 68.8%, peak to trough. The following chart provides an historical depiction of net Iowa corporate income tax revenue.



- **Fuel Tax (positive \$1.2 million, 0.3%)** – Net motor fuel tax revenue has been weak the past twelve months, likely the result of decreased economic activity caused by the recession. According to Department of Revenue fuel sales reports, over the most recent 12-month period Iowa taxable gasoline/ethanol gallons sold increased 1.5% while taxable diesel sales were down 7.1%, the sixteenth consecutive month showing a decline in annual taxable diesel sales. Taxable diesel sales over the most recent 12 month period were 10.6% below the March 2008 peak sales level.
- **Gambling Tax (negative \$11.5 million, - 3.9%)** – Despite expansions of casinos in Clinton and Dubuque, two changes providing boosts to year-over-year gambling growth in Iowa; gambling tax revenue is negative over the past 12 months. According to Racing and Gaming Commission statistics, ten of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending February 2010. The AGR growth for all facilities was negative 3.9% over the past 12 months. Excluding the two expanded facilities, growth was negative 5.7%.
- **Cigarette and Tobacco Tax (negative \$22.5 million, - 9.1%)** – Economic conditions, Iowa's indoor smoking ban, and an increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- **Insurance Premium Tax (negative \$26.9 million, - 25.4%)** – The decline in insurance premium tax revenue is the result of expanded use of tax credits, including credits earned through an insurance company's own activities as well as transferable tax credits purchased from others.

Tax Spotlight – Real Estate Transfer Tax

The transfer of real estate is taxed under the authority of Iowa Code Chapter 428A. The tax was first effective July 1965, and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the 10th day of each month for tax collected during the proceeding month.

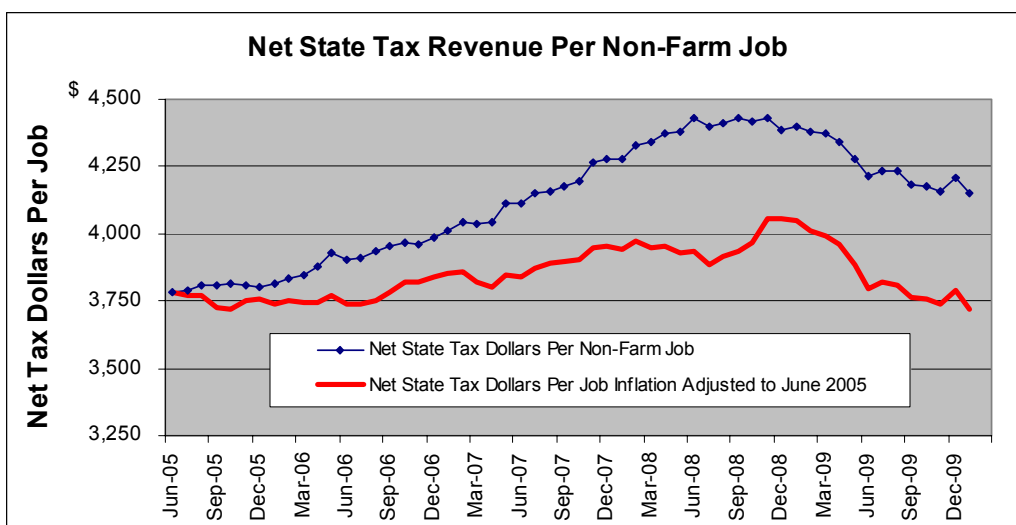
The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 90.00% is deposited in the State General Fund, 5.00% goes to the Housing Trust Fund, and 5.00% goes to the Shelter Assistance Fund. The Real Estate Transfer Tax dollars reflected in this report do not include the portion retained by counties. For the twelve-months ending June 2009, the State collected \$14.8 million from the Real Estate Transfer Tax, with \$14.1 million of that amount deposited to the State General Fund.

During the 2008 Legislative Session, enactment of SF 2432 (Infrastructure and Capital Projects Appropriations Act) created and added the Housing Trust Fund to the distribution formula. Beginning in FY 2010, the General Fund portion of the Real Estate Transfer Tax percentage will be reduced five percentage points annually until FY 2015 when the percent deposited will be 65.0%. The Housing Trust Fund will receive the Real Estate Transfer Tax amount reduced from the General Fund. The distribution to the Shelter Assistance Fund will not be impacted.

The Shelter Assistance Fund is administered by the Department of Economic Development (see Iowa Code Section 15.349). Money in the fund may be used for rehabilitation, expansion, or operating cost of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, not less than \$546,000 shall be spent annually on homeless shelter projects. The Housing Trust Fund is administered by the Iowa Finance Authority (Iowa Code Section 16.181). Money in the fund is to be used for the development and preservation of affordable housing for low-income residents within the State.

Tax Revenue and Employment

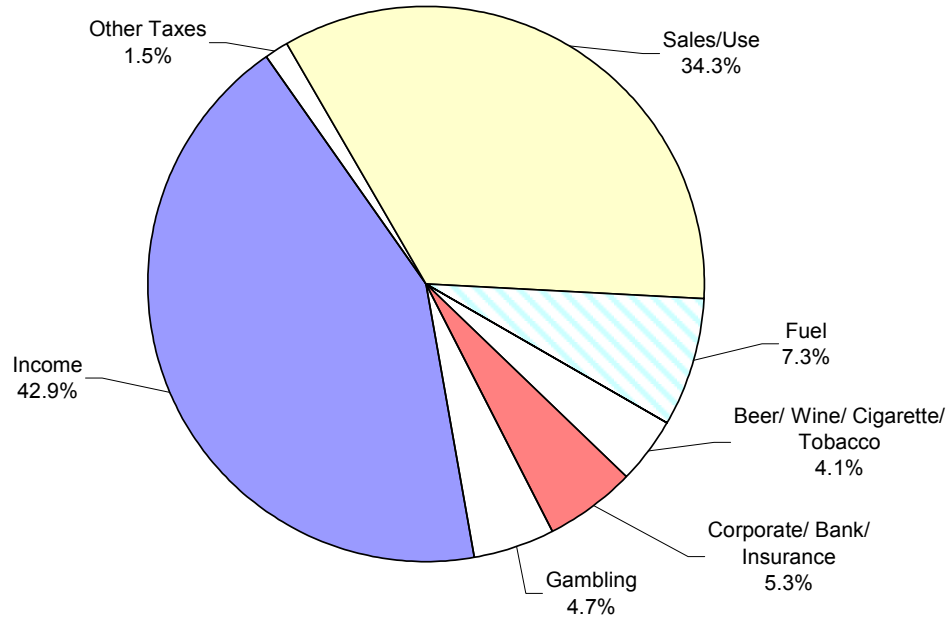
The average reading for Iowa non-farm employment over the 12 months ending January 2010 is 1,475,100, and net State tax receipts over the same 12 months totaled \$6.120 billion, or \$4,149 per non-farm job. This is \$364 (9.6%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 11.4%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by roughly 0.4% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending February 2010

Net Revenue = \$6.076 Billion

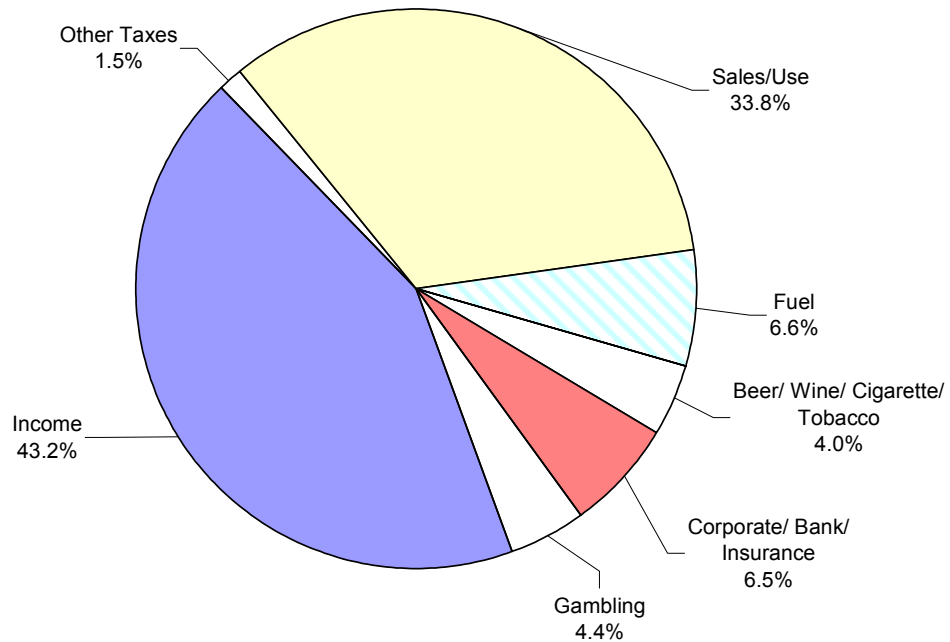
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending February 2009

Net Revenue = \$6.658 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of February 2009	Month of February 2010	February \$ Change	February % Change
Banking	\$ 31.3	\$ 26.9	\$ - 4.4	-14.1%	\$ 0.5	\$ - 0.5	\$ - 1.0	-200.0%
Beer & Wine	20.8	21.1	0.3	1.4%	1.3	1.3	0.0	0.0%
Cigarette & Tobacco	247.9	225.4	- 22.5	-9.1%	16.2	16.9	0.7	4.3%
Corporate Income	293.9	213.6	- 80.3	-27.3%	2.3	13.8	11.5	500.0%
Fuel	440.8	442.0	1.2	0.3%	35.7	37.2	1.5	4.2%
Gambling	294.8	283.3	- 11.5	-3.9%	25.2	23.7	- 1.5	-6.0%
Individual Income	2,877.3	2,609.0	- 268.3	-9.3%	166.3	129.2	- 37.1	-22.3%
Inheritance	76.5	69.5	- 7.0	-9.2%	3.1	4.3	1.2	38.7%
Insurance	105.8	78.9	- 26.9	-25.4%	2.0	2.0	0.0	0.0%
Other Taxes	5.3	10.1	4.8	90.6%	0.0	0.0	0.0	--
Real Estate Transfer	15.8	13.2	- 2.6	-16.5%	0.8	0.7	- 0.1	-12.5%
Sales/Use	2,248.2	2,082.8	- 165.4	-7.4%	278.3	258.8	- 19.5	-7.0%
Total Net Taxes	<u>\$ 6,658.4</u>	<u>\$ 6,075.8</u>	<u>\$ - 582.6</u>	<u>-8.7%</u>	<u>\$ 531.7</u>	<u>\$ 487.4</u>	<u>\$ - 44.3</u>	<u>-8.3%</u>
Gross Tax & Refunds								
Gross Tax	\$ 7,658.6	\$ 7,365.2	\$ - 293.4	-3.8%	\$ 719.9	\$ 673.5	\$ - 46.4	-6.4%
Tax Refunds	\$ - 1,000.1	\$ - 1,289.3	\$ - 289.2	28.9%	\$ - 188.2	\$ - 186.1	\$ 2.1	-1.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,693.4	\$ 5,147.2	\$ - 546.2	-9.6%	\$ 451.8	\$ 407.8	\$ - 44.0	-9.7%
Road Use Tax Fund	\$ 708.7	\$ 693.5	\$ - 15.2	-2.1%	\$ 54.5	\$ 55.7	\$ 1.2	2.2%
Non-GF Gambling	\$ 233.0	\$ 215.7	\$ - 17.3	-7.4%	\$ 25.0	\$ 23.5	\$ - 1.5	-6.0%
Other State Funds	\$ 23.5	\$ 19.5	\$ - 4.0	-17.0%	\$ 0.4	\$ 0.4	\$ 0.0	0.0%
Local Option Taxes *	\$ 763.9	\$ 786.7	\$ 22.8	3.0%	\$ 70.2	\$ 62.2	\$ - 8.0	-11.4%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All corporate tax is deposited to the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$6.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund (increased to \$66.0 million beginning FY 2010). Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, and the Vision Iowa Fund.

Individual Income Tax: Most individual income tax revenue is deposited to the State General Fund. A total of \$4.0 million per year is deposited to the Workforce Development Fund (\$4.0 million). An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited to the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited to the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% to the State General Fund, 5.0% to the Housing Trust Fund, and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.